

Deferred Retirement Option Program (DROP)

Questions & Answers:

Q. What is DROP?

- A. DROP allows members of the Uniformed and Police Officers Retirement Systems who are eligible for normal service retirement to retire for purposes of the retirement plan while remaining employed in their current position for an additional 3 years. During the 3 years, their retirement benefits accumulate and earn interest compounded monthly at an effective annual rate of 5 percent.

Q. How does DROP Work?

- A. Once you enter DROP, you continue your employment in your current Agency and the retirement benefits you would have received had you stopped working are credited monthly to your DROP balance. Your DROP account balance will be credited with interest at an annual rate of 5% compounded monthly. At the end of the DROP period, the member **MUST** terminate employment with the County and begin to receive the retirement benefit instead of having it credited to a DROP account.

Q. I am within one year of retirement eligibility; can I participate in DROP now?

- A. No. The effective date for DROP is October 1, 2003. However, once DROP is in place, you must be eligible for normal service retirement to participate. Individuals within one year of retirement eligibility may request an estimate from the Retirement Agency to help them decide whether DROP is a good option for them.

Q. Can I enroll on any date once I am eligible to retire?

- A. DROP enrollments may only be effective on the first day of a pay period. Due to this enrollment requirement, the earliest possible enrollment in DROP will be effective October 4, 2003.

Q. When will estimates be available from the Retirement Agency?

- A. From September 3 through October 31, 2003, on Mondays, Wednesdays and Fridays, Retirement Agency counselors will be available to provide estimates and counseling to normal retirement eligible members who wish to enter DROP **with effective dates in 2003.**

You will not be able to receive DROP counseling unless you make an appointment. During this initial enrollment period (October 4 – December 27, 2003), retirement eligible members can only receive an estimate from a Retirement Agency Counselor as part of a counseling session. Starting September 2, you can

call John Prather at 703-279-8212 or Diane Arcoraci at 703-279-8233 to schedule and appointment. **Walk-in hours for DROP counseling are not available –** therefore, please call for an appointment early. Counseling for those eligible for DROP on or after January 2004 will be **after** November 1, 2003.

Q. If I want to get more information or an estimate without coming in for a counseling appointment, what can I do?

A. Visit the Police Officers and Uniformed Retirement Systems website on the infoweb. Under the DROP heading you will find information and a newly developed estimator program designed for members to project their DROP account balances and annuities. The program also computes estimated annuities if the member does not enter DROP and keeps working. Members can make assumptions for future COLA percentages and changes in final average pay.

Q. Where do I find this estimator?

A. As of September 2, members of the Police Officers Retirement System should go to <http://www.fairfaxcounty.gov/retbrd/policeregest.html> and Uniformed members should go to <http://www.fairfaxcounty.gov/retbrd/uniformedregest.asp>. When you enter the estimator program, you will fill in information as if you were calculating a regular retirement estimate. Once you choose your date and press "Calculate", the DROP portion of the internet estimate will pop up below the regular estimator. Scroll down the page to the DROP section and you can begin to enter additional variable data.

Q. What happens to my Sick Leave when I enter DROP?

A. Your sick leave balance at the time of entry into DROP will be added to your creditable service. Some individuals may choose to hold back up to 40 hours of that sick leave so they do not have to begin the DROP period with no sick leave available.

Q. I am confused about what happens to unused sick leave at the end of DROP--- Can you clarify?

A. Sick leave on the books **prior** to entering DROP is used towards service credit. Any Sick Leave held back (up to 40 hours) and any that accrues during your three years in DROP is "use or lose". Any balance at the end of your DROP period will NOT be converted to creditable service. You would either use it as sick leave before the three years ends or you would lose it.

Q. When I terminate employment, what happens to my account balance?

A. You can receive the balance of the DROP account either in the form of a lump sum distribution or direct roll-over of all or a portion of your balance to another qualified plan (or IRA). Or if you choose, you may elect to use 50% or 100% of your DROP balance to increase your monthly annuity.

Q. If I elect the lump sum option at the end of my employment while in the DROP, will I pay taxes on that amount?

A. Yes, the distribution is subject to federal and state tax as ordinary income. Additionally, if the member is under the age of 59 ½, there may be an additional 10% penalty imposed by the IRS. Taxation however may be deferred by a direct rollover to another eligible plan or IRA.

Q. Why should I participate in the DROP lump sum option if it is taxable?

A. The lump sum feature of DROP can be appealing to people for many different reasons. For instance, the DROP account balance could help a retiree make a planned large purchase.

The timing for receiving a lump sum might be perfect for sending your child off to college or assist with tuition payments.

A retiree may want to pursue financing his or her own personal business venture and this could provide much needed start-up funds.

There are many reasons people have for wanting a lump sum distribution. For others, they may prefer a larger monthly retirement benefit.

Q. If I enter DROP in October, meaning I would terminate employment in October three years later, can I defer doing anything with the DROP account until after January 1st? If I want to take a lump sum, that sum would be added to almost a whole year of my salary, which could really impact me on my taxes.

A. No, at least 60 days prior to the conclusion of your DROP period you must make an election on how you want the balance distributed or it will automatically be distributed as a lump sum at the end of the DROP period. To avoid taxes, you could roll over the DROP balance to an IRA or other qualified plan and take distribution in the following year according to the terms of that other plan.

Q. If I want a monthly annuity, how does the actuarial conversion factor work? Does the monthly annuity have to be done this way, or can I just pick the amount I want each month?

A. You would choose 0%, 50% or 100% of your DROP balance to be used to purchase an increase in your annuity. You will receive your Retirement System benefit (sometimes called an annuity) after you exit DROP. You would elect to have some or all of the DROP balance used to increase the annuity. You will not be able to pick a specific amount per month. Monthly amounts will be determined actuarially

- Q. If I elect to take cash out, can it be any amount? or does it have to be 100% or 50%?**
- A. Any amount can be cashed out and the rest of the amount can be rolled over to a qualified plan. If you want to increase your retirement benefit, you **MUST** do that with 50% or 100%. If you use 50% of your balance to increase your annuity, the other 50% can be divided in any percentage between cash and a rollover to an IRA or other qualified plan.
- Q. As I know nothing about IRAs and annuities, can you tell me where I can go to learn about these?**
- A. You should contact a Certified Financial Planner or get information from your bank or financial services firm with regards to IRAs and annuities.
- Q. If I decide to participate in DROP, will I continue contributing into the retirement system on a biweekly basis?**
- A. No. Your contributions to the Retirement System cease once you are retired. Also, your employer's contributions to the retirement system cease upon your entry into DROP.
- Q. What if I enter DROP and then change my mind?**
- A. Your election to enter DROP is irrevocable. However, you can terminate your employment with the County at anytime. Once you are no longer employed, you must choose one of the options for receiving your account balance and begin receiving your monthly retirement annuity.
- Q. Will I continue to be eligible for salary increases and leave during the DROP period?**
- A. Yes. Employees continue as active employees for the purpose of all other benefits and personnel policies. A participating DROP member will continue to accrue annual and sick leave during the DROP period and will continue to be eligible for health, dental, and life insurance as well as be eligible to participate in the County's Deferred Compensation plan. The deductions for health, dental and life insurance benefits will be the same deductions that would have been taken had the participating DROP member been an active County employee, not the deductions that would be taken from the retirement benefits and allowances of a retiree.
- Q. As a member of the Police Officers System, can I start contributing into Social Security when I enter DROP?**
- A. No. You will still be working in a position with the Police Department that does not participate in Social Security.

Q. What happens to my account balance if I should die during the DROP period?

- A. If you die during the DROP period, the benefits for your spouse will depend on whether your death was in the line of duty and what Joint & Last Survivor option you elected when you entered DROP.

If your death is not service-connected, your spouse would be eligible for the same benefits that would have been payable had you retired, plus the accumulated DROP balance.

If your death occurs in the line of duty, your spouse will have the option of receiving benefits as through you had never entered DROP, or receiving the DROP balance plus benefits based on the Joint and Last Survivor option you selected when entering DROP.

You **MUST** make a Joint and Last Survivor election at the point at which you enter DROP. **You may NOT defer** a Joint and Last Survivor decision to the end of the DROP period.

Q. What happens to my account balance if I should become disabled?

- A. Should you become disabled during the DROP period other than as a result of a service-connected disability, the monthly benefit which would otherwise be payable to the DROP account will be paid you and you will also be eligible to receive the balance of the DROP as of the effective date of disability.

Should you become disabled during the DROP period as a result of a service-connected disability, you have a choice of either taking the DROP account balance plus the normal service retirement benefits or forfeiting the DROP account balance and taking a service-connected disability benefit as though DROP participation had not occurred.

Q. When exactly am I eligible to participate in DROP?

- A. Retirement eligibility for DROP is the same as for normal service retirement. It is based on your age and years of service (may include sick leave). See below:

Members of the **Uniformed** system are eligible to participate in DROP at age 55 with 6 years of service; or a Uniformed member will be eligible with 25 years of service.

Members of the **Police Officers** system are eligible at age 55; or 25 years of service, or if hired before July 1, 1981, 20 years of service.

Members of the **Employees'** system are NOT eligible to participate in DROP.

Q. Who would I call to make an appointment or get an application to enroll in DROP?

- A.** You can call John Prather at 703-279-8212 or Diane Arcoraci at 703-279-8233 to schedule and appointment. **Walk-in hours for DROP counseling are not available** – therefore, please call for an appointment early. Counseling for those eligible for DROP on or after January 2004 will be **after** November 1, 2003.

For answers to additional questions or for more information, please call the Retirement Administration Agency, 703-279-8200.